

House Energy & Technology Committee
November 7, 2007
Testimony of Michael W. Peters, President
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Good morning Chairman Accavitti, Vice Chairman Mayes, Vice Chairman Nofs, and members of the committee. I want to thank you for the opportunity to address you regarding House Bill 5383, the Electric Cooperative Member Regulation Act. I am Mike Peters with the Michigan Electric Cooperative Association (MECA). MECA is the statewide trade association representing the interests of Michigan's electric cooperatives¹. MECA's membership consists of nine distribution cooperatives, one cooperative whose members are all choice customers under P.A. 141, and one generation and transmission cooperative, Wolverine Power Cooperative. Collectively, the electric cooperatives provide retail electric service to over 325,000 homes, farms and businesses located in 59 of Michigan's 83 counties,² however, due to the fact that cooperatives serve a considerable number of seasonal homes and cottages, we actually have cooperative members in every county of the state. Electric cooperatives are not-for-profit, member-owned and controlled utilities governed by boards of directors elected from the membership.

¹ MECA's membership consists of the following: Alger Delta Cooperative Electric Association, Cherryland Electric Cooperative, Cloverland Electric Cooperative, Great Lakes Energy Cooperative, HomeWorks Tri-County Electric Cooperative, Midwest Energy Cooperative, The Ontonagon County Rural Electrification Association, Presque Isle Electric & Gas Co-op, Thumb Electric Cooperative, Wolverine Power Marketing Cooperative, and Wolverine Power Supply Cooperative, Inc.

² The distribution cooperatives maintain over 37,500 miles of line to serve approximately 325,000 meters. This results in an average of approximately eight customers per mile of line. This compares to approximately 35 customers per mile for the average investor-owned utility and over 90 customers per mile for some municipal systems. As for annual kWh sales per mile of line, the distribution cooperatives average 60,500; the IOUs approximately 725,000; and some municipals top the scale at 1,950,000 kWh per mile per year. Approximately 95% of cooperative customers are residential. Several cooperatives serve a considerable number of seasonal homes and cottages where annual usage is low, but maintenance and the annual cost to serve may be higher.

Michigan's distribution cooperatives, unlike in most states, are fully regulated by the Michigan Public Service Commission. Nationwide, electric cooperatives operate in 47 states and serve over 39 million members. However, only 14 states exercise full regulation of electric cooperatives. In nine states, the cooperatives, acting through either their member-elected boards of directors, or the membership, can vote the cooperative out from under state regulation or vote to be regulated. In total, approximately 75% of all electric cooperatives operating today are not under state regulation for rates and service rules.

House Bill 5383 would give the members, acting through their board of directors, the decision of whether to remain under full Commission regulation, or to make decisions regarding rates, service rules and terms and conditions of service at the local level.

In a 1995 report entitled, "Michigan Public Service Commission Staff Review of Electric Cooperative Regulation" the staff was charged with the task of reviewing the status of the ratemaking mechanisms applicable to the cooperatives. Although the staff found that for the most part the rate making process for the cooperatives was meeting its intended goals, the report also states, "The rationale for comprehensive full-scale regulation is questionable today. Instead, deregulation in whole, or in part would seem to be a timely consideration." In making the case for "deregulation" the report laid out the following points:

- The rationale for regulating investor owned utilities is not applicable to cooperatives and there is no comparable rationale.
- Most states find it unnecessary to regulate cooperatives; and indeed the vast majority of cooperatives are unregulated.

- There is no perceptible price difference between regulated and nonregulated cooperatives nationally.
- Although the commission's regulation has served to assist the cooperatives in the past, its role in setting a maximum price today is ambiguous.
- The role which regulation plays today includes providing a buffer between customers and cooperative managers.

These points challenge the need for regulatory treatment of the cooperatives and form the case for the commission requesting the deregulation of the cooperatives. (MPSC Staff Report page 50, February 1995.)

We agree with the points raised in the MPSC Staff Report and believe H.B. 5383 is the embodiment of the staff report. H.B. 5383 allows each cooperative, acting through its member-elected board of directors, to elect to be member-regulated or continue under current MPSC regulation. We believe that issues such as service area, customer choice, public safety and system performance standards enforced by the Commission could and should stay in place, even for those cooperatives that become member-regulated for rates, service and accounting rules. In essence, cooperatives should be given back the local control they enjoyed until 1965. We look forward to working with the members of this committee, and the utility industry to pass HB 5383 to return local control to cooperatives and their member-owners.

